



18 August 2021

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2021 Full Year Results Release

Please find attached for immediate release to the market the 2021 Full Year Results Release for Coles Group Limited.

This announcement is authorised by the Board.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Daniella Pereira".

Daniella Pereira
Company Secretary

For personal use only

Results Release

colesgroup

18 August 2021

2021 Full Year Results Release

**Second year of strategy delivered to grow trust and long-term shareholder value.
Vaccinations expected to support normalising consumer behaviours and migration in 2022**

FY21 Group performance highlights (non-IFRS basis)

- Net profit after tax increased by 7.5%¹ to \$1,005 million
- Group EBIT and earnings per share growth of 6.3% and 7.5%¹ respectively with operating leverage across all segments
- Sales revenue increased by 3.1% to \$38.6 billion with Group eCommerce sales reaching \$2.1 billion
- Comparable sales growth in Q4 of 2.1% in Supermarkets, (7.1)% in Liquor and 1.2% in Express
- Two-year² headline sales growth of 9.6% in Supermarkets, 15.1% in Liquor and 13.8% in Express
- Coles' Q4 exit market share restored to pre-COVID-19 levels as shopping centres recovered
- Smarter Selling benefits of approximately \$300m in FY21
- Cash realisation of 106% and net debt of \$0.4 billion providing capacity for future growth plans
- Supermarkets Net Promoter Score (NPS)³ improved by 2.3 points; Liquor NPS³ improved by 4.9 points
- Improved safety with 15.7% reduction in TRIFR in FY21 relative to the prior year
- Fully-franked final dividend of 28 cents per share declared. Total FY21 dividends payable are a 6% increase on the prior year

Key financial results - 52 weeks ended 27 June 2021

	FY21	FY20	CHANGE
Sales revenue (\$ millions)	38,562	37,408	3.1%
EBITDA (\$ millions)	3,432	3,257	5.4%
EBIT (\$ millions)	1,873	1,762	6.3%
Net profit after tax (NPAT)¹ (\$ millions)	1,005	935	7.5%
Basic earnings per share ¹ (cents)	75.3	70.1	7.5%
Interim dividend per share ⁴ (cents)	33.0	30.0	10.0%
Final dividend per share ⁴ (cents)	28.0	27.5	1.8%
Total dividend per share⁴ (cents)	61.0	57.5	6.1%

¹ Net profit after tax and Basic earnings per share excludes significant items in FY20.

² Headline 2-year growth is calculated as growth between FY21 and FY19 (retail calendar basis).

³ Going forward, NPS will be the metric used to measure customer advocacy. Liquor NPS is based on Liquorland NPS results.

⁴ Dividends announced.

James Graham, Chairman of Coles Group, said: "The result highlights the commitment of the Group to grow trust and shareholder value in a year marked by extraordinary community and business challenges. Pleasingly, significant progress has been made in the development of new operating systems and the investment in new technology platforms which will further strengthen our long-term performance."

Steven Cain, CEO of Coles Group, said: "In another year of COVID-19, floods and bushfires, I would like to thank our team members, suppliers and community partners for their resilience and support to ensure the security of food supply and a safe environment for our customers. Whilst the COVID-19 Delta variant is presenting some new challenges, I would like to thank all levels of government for continuing to work with us to help keep our customers, team members and the community safe, including by providing priority access to vaccines in some critical areas. In February, we said the short-term outlook would be dependent upon the efficacy and pace of the vaccination program. Six months on, government forecasts are pointing to a more normal outlook from early in calendar 2022 including the longer-term prospect of increased migration."

From a strategic perspective we have delivered a second year of far-reaching change, to begin creating a differentiated omnichannel Coles with more unique products, increased use of data, a leading eCommerce offer and investment in technology capability throughout the business. We have also progressed the roll out of successful new formats with Coles Local and Liquorland, and launched our new *Together to Zero* and *Better Together* sustainability strategy – all built around longer-term relationships with our supply partners. As we approach the half-way point of our transformation program, with strong foundations in place, and increasing investment in the business, I expect the pace of change at Coles to continue to accelerate to meet the changing demands of our customers and opportunities in the marketplace."

Strategic highlights

Inspire Customers

- Q4 exit market share restored to pre-COVID-19 levels as shopping centres recovered
- Now ranked as one of Australia's most trusted consumer brands in Roy Morgan survey
- Customer advocacy improvements with Supermarkets and Liquor NPS increasing by 2.3 points and 4.9 points respectively across the year
- eCommerce sales growth of 52% for the year (B2C sales growth of 60%) with Q4 growth of 62% and Q4 penetration of 6% supported by investments in capacity and customer experience, including the continued roll out of same day home delivery and Click & Collect (to the boot of car), now available from over 300 and 500 stores respectively
- Became the only mainstream supermarket in Australia to remove door-to-door paper catalogues; launching the digital catalogue and coles&co to deliver more personalised digital engagement which in-turn has led to a reduction of more than 260 million printed catalogues since implementation
- Progressed trusted and targeted value strategy, placing a net 474 new products on everyday low prices during the year, supporting improvements in the "competitively priced" customer metric
- Exclusive to Coles products sales growth of 5% with penetration of 32% at Q4 with 11 Coles Own Brand products winning Product of the Year awards
- Provided a tailored offer to meet the differing needs of customers with 30% of store layouts tailored, with a focus on health and pet category acceleration, complemented by more than 650 range changes during the year in categories such as impulse, homecare and health and beauty. These changes led to improved levels of customer range perception throughout the year
- Progressed convenience roll out with the expanded Coles Kitchen and the Coles Kitchen 'Balanced for you' health range now available in more than 300 stores. Also developed a complementary range of nutritionist approved frozen sports nutrition meals under the Coles PerForm brand available nationally
- Accelerated Liquor eCommerce and omnichannel capabilities through the opening of three eCommerce dark stores, supporting Liquor eCommerce sales growth of 79%

Smarter Selling

- Delivered approximately \$300 million of Smarter Selling benefits in FY21 (total cumulative benefits in excess of \$550 million since commencement of program), despite challenging operating conditions presented by COVID-19 across the store and supply chain network, including the following key initiatives:
 - Data and technology-led solutions supporting store operations to improve store level planning, information flow and decision-making (e.g. Smarter Forecasting), as well as reducing manual handling and improvements in availability for customers (e.g. guided splits, gap scan improvements)

- Measures to reduce loss through use of artificial intelligence to optimise markdowns (e.g. dynamic markdowns) and loss prevention initiatives (e.g. electronic entry gates)
- Technology-led transport and logistics solutions improving the end-to-end flow of fresh goods and unlocking significant benefits through the network (e.g. Coles Collect, Faster Fresh Flows providing greater shelf life, paperless operations entering and exiting distribution centres)
- Introduction of new customer self-service solutions at the checkout enabling greater customer choice and increases in team member productivity (e.g. customer bagging benches, trolley assisted checkouts)

- Commenced implementation of Fresh Produce Easy Ordering to improve product freshness and availability for customers and better planning for suppliers
- Construction progressed at the Witron automated distribution centres in New South Wales and Queensland, with the majority of the structural building work completed in Queensland. Construction at the Ocado customer fulfilment centres (CFCs) in Melbourne and Sydney progressed well
- Launched myhub (people and payroll system), replacing over 16 disparate systems, providing a 'one-stop shop' for team members, simplifying and improving ways of working
- Tailored store format strategy continued with 65 renewals completed during the year, including 10 Format A, 36 Format C and four Coles Local supermarkets, including the first Coles Local in Queensland

Win Together

- Launched *Together to Zero* and *Better Together* sustainability strategy setting our ambitions across key sustainability areas of climate change, waste and hunger, including the following sustainability highlights during the fourth quarter:
 - Signed two further renewable energy contracts to purchase large-scale generation certificates with ENGIE and Neoen
 - Joined as a founding member of the Australia, New Zealand and Pacific Islands Plastics Pact (ANZPAC) committing Coles to clear and actionable sustainable packaging targets by 2025
 - Coles Local Fitzroy opened with new sustainability features to reduce plastic waste including an olive oil refill station and the ability for customers to bring their own container and fill it with select dry Scoop & Weigh products
- Improved safety (15.7% improvement in TRIFR) with investments in technology in distribution centres and manual handling equipment in stores and engineering controls integrated into waste management equipment to prevent hand injuries
- Invested in team member mental health and wellbeing with the launch of monthly 'Mind your Health' communications for team members and roll out of Gratitude, Empathy and Mindfulness (GEM) challenges throughout the year
- Supported diversity through increased gender balance with a 2.3 percentage point improvement in women in leadership positions in FY21 through a focus on developing female leaders in store manager and technology roles; recognised as a leader in LGBTQI+ inclusion, winning a Gold Australian Workplace Equality Index award
- Invested in team member learning and development through partnering with Deakin University to offer mini-MBA in Strategic Category Management and the funding of up to 1,000 Coursera scholarships
- Improved relationships with suppliers with Coles recording its highest ever engagement score in the 2021 Advantage supplier survey
- Announced direct milk sourcing model to Tasmania and further expanded model in Victoria, New South Wales and South Australia to supply milk for Coles Brand cheese, allowing more dairy farmer suppliers to enter long-term relationships with Coles
- Significant contributions to charities and community organisations in FY21, including more than \$6.7 million raised for FightMND; \$2.5 million raised for children's hospitals across Australia through the Curing Homesickness fundraising initiative; and \$1.0 million through the sale of Community Bags benefitting Guide Dogs Australia, SecondBite, Clean Up Australia, Little Athletics and Autism Spectrum Australia (Aspect) schools
- Extended partnership with Rowing Australia to provide weekly grocery deliveries to the Australian rowing team and support grassroots community rowing through events such as the Australian Indoor Rowing Championships
- Supported team members and communities through COVID-19 lockdowns and natural disasters including bushfires and cyclones in Western Australia and floods in Queensland and New South Wales

Group performance overview

\$ MILLION	FY21	FY20	CHANGE	2-YEAR CHANGE ¹
Supermarkets	33,845	32,993	2.6%	9.6%
Liquor	3,525	3,308	6.6%	15.1%
Express	1,192	1,107	7.7%	13.8%
Group sales revenue	38,562	37,408	3.1%	10.2%

¹Headline 2-year growth is calculated as growth between FY21 and FY19 (retail calendar basis).

\$ MILLION	FY21	FY20	CHANGE
Supermarkets	3,001	2,867	4.7%
Liquor	276	242	14.0%
Express	207	167	24.0%
Other	(52)	(19)	N/M
Group EBITDA	3,432	3,257	5.4%

N/M denotes not meaningful

\$ MILLION	FY21	FY20	CHANGE
Supermarkets	1,702	1,618	5.2%
Liquor	165	138	19.6%
Express	67	33	103.0%
Other	(61)	(27)	(125.9)%
Group EBIT	1,873	1,762	6.3%

FY21 Performance Summary and Dividend

Group sales revenue increased by 3.1% to \$38.6 billion in FY21, and 10.2% on a two-year basis. Supermarkets, Liquor and Express experienced sales growth despite cycling elevated sales in the prior corresponding period due to the onset of COVID-19 and the subsequent national lockdown. Growth was driven by strategic initiatives that resonated with customers and customers spending more time living and working at home during COVID-19.

Group EBITDA increased by 5.4% to \$3.4 billion and Group EBIT increased by 6.3% to \$1.9 billion with Smarter Selling benefits and operating leverage driving growth across all segments, despite incurring approximately \$130m of COVID-19 costs during the year.

The Coles Board has declared a fully-franked final dividend of 28 cents per share with a record date of 27 August 2021 and a payment date of 28 September 2021.

Update on COVID-19 impacts

COVID-19 continued to impact our team members and communities throughout FY21 with eleven lockdowns across the year impacting communities across Australia. Consumer behaviours demonstrated a trend of normalising to pre-COVID-19 levels during the fourth quarter until the last few weeks when lockdowns were experienced across Victoria, in Darwin and parts of Sydney. Sales contributions from shopping centre and CBD stores increased relative to neighbourhood stores in the fourth quarter which had previously benefited from 'local shopping' trends. Furthermore, Sundays returned to be the largest trading day of the week and transaction trends improved with growth in the convenience, food-to-go and impulse categories, while basket size moderated. Despite normalising consumer trends, eCommerce sales continued to grow strongly with penetration reaching 6% in the fourth quarter. Further details on more recent consumer trends in the first quarter of FY22 is included in the Outlook section following the re-introduction of COVID-19 restrictions, most notably in New South Wales and Victoria.

Segment performance review

Supermarkets

\$ MILLION	FY21	FY20	CHANGE
Sales revenue	33,845	32,993	2.6%
EBITDA	3,001	2,867	4.7%
EBIT	1,702	1,618	5.2%
Gross margin (%)	25.9	25.5	35bps
CODB (%)	(20.8)	(20.6)	(22)bps
EBIT margin (%)	5.0	4.9	13bps

Operating metrics

	FY21	2H21	1H21	FY20
Comparable sales growth (%)	2.5	(2.2)	7.2	5.9
2-year comparable sales growth ¹ (%)	8.4	7.8	9.1	8.6
eCommerce sales ² (\$ billions)	2.0	0.9	1.0	1.3
eCommerce penetration (%)	5.7	5.8	5.6	3.8
Sales per square metre ³ (MAT \$/sqm)	17,847	17,847	18,101	17,547
Net selling area (MAT sqm)	1,939,907	1,939,907	1,926,420	1,915,798
Customer satisfaction ⁴ (%)	89.7	89.6	89.8	87.1
Net promoter score ⁵ (point improvement)	2.3	N/A	N/A	2.3
Inflation / (deflation) (%)	0.8	(0.6)	2.3	2.4
Inflation / (deflation) excl. tobacco and fresh (%)	(0.8)	(2.2)	0.7	1.5

¹ Comparable 2-year growth is calculated as the aggregate of FY21 and FY20 growth rates.

² eCommerce sales include Liquor sold through coles.com.au.

³ Sales per square metre is on a moving annual total (MAT), calculated on a rolling 52 week basis.

⁴ Based on Tell Coles data.

⁵ Going forward, NPS will be the metric used to measure customer advocacy.

Performance highlights

Supermarkets sales revenue was \$33.8 billion for the year, an increase of 2.6% on the prior corresponding period, with comparable sales growth of 2.5%, and 8.4% on a two-year basis. For the fourth quarter, sales revenue increased by 1.7% and comparable sales growth was 2.1%. On a two-year basis, Supermarkets headline sales growth in the fourth quarter increased to 9.4% compared to 6.8% achieved in the third quarter, while two-year comparable sales growth in the fourth quarter increased to 9.2% compared to 6.7% achieved in the third quarter.

Sales growth was supported by successful value campaigns throughout the year including 'Helping lower the cost of breakfast, lunch, dinner and entertaining', successful execution across the MasterChef cookware and knives campaigns and strength in eCommerce. While consumer behaviours began to normalise at the end of the third quarter and into the fourth quarter, increased in-home consumption as a result of COVID-19 positively impacted sales revenue growth throughout the year. Normalising consumer behaviours in the fourth quarter supported improving transactions as customers shopped more frequently, while basket sizes moderated, albeit are above pre-COVID 19 levels.

Customer satisfaction, as measured by Tell Coles, improved by 2.6 percentage points compared to the prior year, with improvements across the key pillars of availability, range and price.

eCommerce sales grew 52% to \$2.0 billion in FY21 as more consumers shifted towards purchasing online, in part as a result of COVID-19 lockdowns. A number of improvements were made in the end-to-end online customer experience during the year including in the areas of digital experience, platform stability, expanded range and availability, delivery in full and on time, and improved customer support. As a result, Online NPS almost doubled compared to the prior year. Coles Online also invested in its network adding 249 delivery stores and upgraded more than 100 Click & Collect locations. A number of new services were added in the year including same day home delivery, Click & Collect Rapid (order to pickup in 90 minutes), and Coles Plus membership subscription offer. Monthly active shoppers increased 46% compared to the prior year and customer retention improved.

Coles continues to make progress against our Inspire Customers strategic pillar, delivering trusted value and a tailored offer. Through the use of advanced analytics, 30% of store layouts have now been tailored to ensure the right range is in the right store. Investments in technology and processes have also enabled an increase in customer range activity with more than 650 range changes conducted during the year, an increase of 23% on the prior year. These range changes have brought more innovation to stores with initiatives such as the introduction of 'Free From' in cereals and sugar free soft drinks, creating healthier options for customers. In addition, a net 474 new products were placed on everyday low prices during the year.

From FY21, Coles reports on Coles Own Brand and Exclusive Proprietary Brand sales under the new banner 'Exclusive to Coles' (refer to Appendix for further information). Exclusive to Coles products delivered \$10.9 billion in sales during the year, an increase of 5%. Coles continues to inspire customers with new innovations and brands, with over 2,100 new Coles Own Brand products launched during the year. With a focus on being a 'destination for convenience and health', the most successful launches included the Coles Kitchen salad kit range and Coles PerForm frozen sports nutrition meal solutions. During the year, Coles Own Brand won 46 awards including a record 11 Product of the Year awards across products such as Coles Finest Chocolate and Hazelnut Mousse, Coles Urban Coffee Culture dark roasted beans, Daley St medium/dark coffee capsules, KOi Jasmine and Sandalwood Handwash and LPO gel cleanser.

Coles Own Brand made significant progress during the year in supporting Coles' responsible sourcing practices including ensuring all timber, pulp and paper products are sourced from forest plantations independently certified or made with post-consumer recycled fibre. The Australian Packaging Covenant Organisation (APCO) rated Coles as a 'leading' retailer and a finalist in APCO's Industry Sector Award and Packaging Future Award for achievements in sustainable packaging design and recycling initiatives.

Supermarkets recorded deflation excluding tobacco and fresh of 0.8% for the year and 3.7% for the fourth quarter. Total Supermarkets price inflation of 0.8% was recorded for the year and deflation of 1.1% was recorded in the fourth quarter. Deflation in the fourth quarter was driven by the grocery, dairy, frozen and convenience categories due to the cycling of lower promotional activity following unprecedented demand and uncertainty of supply in the prior corresponding period. This was partially offset by inflation in fresh, particularly in red meat from elevated livestock prices.

Coles completed 65 renewals during the year including 10 Format A and 36 Format C and four Coles Local stores. Coles now has 41 Format A, 69 Format C and nine Coles Local stores across the network with four Coles Local stores in Sydney, four in Melbourne and one in Brisbane. For the year, 20 new openings and 10 closures were completed. At the end of the period there were 834 Supermarkets.

Gross margin increased by 35 bps to 25.9% driven by strategic sourcing and Smarter Selling benefits such as supply chain and loss prevention initiatives. These were partially offset by COVID-19 costs as well as additional business continuity costs at the Smeaton Grange distribution centre.

Cost of doing business (CODB) as a percentage of sales increased by 22 bps to 20.8% largely due to strategic investments in marketing, including coles&co and the digital catalogue, technology initiatives and operating expenditure to support the capital expenditure program. These costs were partially offset by Smarter Selling benefits including benefits from the implementation of technology-led solutions in store, and lower COVID-19 costs compared to the prior year.

EBIT for the year increased by 5.2% to \$1.7 billion and EBIT margin improved by 13 bps to 5.0%.

Liquor

\$ MILLION	FY21	FY20	CHANGE
Sales revenue	3,525	3,308	6.6%
EBITDA	276	242	14.0%
EBIT	165	138	19.6%
Gross margin (%)	21.8	21.6	23bps
CODB (%)	(17.1)	(17.4)	26bps
EBIT margin (%)	4.7	4.2	49bps

Operating metrics

	FY21	2H21	1H21	FY20
Comparable sales growth (%)	6.3	(2.9)	15.1	7.3
2-year comparable sales growth ¹ (%)	13.6	11.0	16.6	8.4
eCommerce sales ² (\$m)	110	51	59	62
eCommerce penetration (%)	3.1	3.3	3.0	1.9
Net Promoter Score ³ (point improvement)	4.9	N/A	N/A	1.6
Sales per square metre ⁴ (MAT \$/sqm)	16,287	16,287	16,603	15,438
Net selling area (MAT sqm)	217,442	217,442	215,448	214,864

¹ Comparable 2-year growth is calculated as the aggregate of FY21 and FY20 growth rates.

² eCommerce sales exclude Liquor sold through coles.com.au which is reported in Supermarkets' eCommerce sales.

³ Net Promoter Score is based on Liquorland NPS results. Going forward, NPS will be the metric used to measure customer advocacy.

⁴ Sales per square metre is on a moving annual total (MAT), calculated on a rolling 52 week basis.

Key highlights

Liquor sales revenue was \$3.5 billion for the year, an increase of 6.6% on the prior corresponding period, with comparable sales growth growing by 6.3%, and 13.6% on a two-year basis. For the fourth quarter, Liquor sales revenue decreased by 6.5% and comparable sales growth decreased by 7.1% as the business cycled elevated sales from COVID-19 and government imposed restrictions on licensed venue operators in the prior corresponding period when Liquor comparable sales growth was 20.2%. On a two-year basis, Liquor headline sales growth increased to 12.5% in the fourth quarter compared to 8.9% achieved in the third quarter, while two-year comparable sales growth in the fourth quarter increased to 13.1% compared to 9.3% achieved in the third quarter.

Sales growth was driven by all banners, categories and states, underpinned by a strong performance in eCommerce while spirits and RTDs were the key drivers of growth at the category level.

Significant progress was made during the first year of Liquor's refreshed strategy "to be a simpler, more accessible, locally relevant drinks specialist". The key focus during the year was to "simplify and refocus" the business, including the implementation of a new customer focused organisational structure and the introduction of a simplified operating model which has created a store environment that is more efficient to operate for team members and easier to shop for customers. Investments in service and team capability, as well as a strategic focus on delivering trusted value through lowering prices for longer, and targeted range change in key growth categories, has supported strengthening customer metrics across all three banners. Investments in eCommerce, systems, and formats also commenced during the year to "differentiate and grow" the business over the longer term. Investments in service, equipment, such as new platform ladders, as well as the introduction of 'BEEsafe Basics' training focusing on Behaviour, Environment, Equipment and Systems contributed to a 31% improvement in Liquor's TRIFR.

Targeted investments in capacity, order fulfilment, range and customer experience during the year supported strong eCommerce sales growth of 79%. For the fourth quarter, eCommerce sales remained elevated growing by 42% with penetration of 4%. Three dark stores in Victoria, Queensland and Western Australia were opened during the year. The integration of liquor into Coles Online, alongside our existing websites, has been a strategic focus with the number of liquor products available through the platform doubling over the past year.

Renewal activity occurred across all three banners during the year. The Black & White Liquorland format continues to perform well moving from test to trial during the year. The First Choice Liquor Market format has now been rolled out to 79% of the network. The new Vintage Cellars trial format continues to show promising results with 7 renewals completed during the year and successful low-cost elements rolled out across a further 12 stores. Both the Liquorland and Vintage Cellar renewals are resonating well with customers and team members.

Optimisation of the Liquor store network continued during the year with 31 new stores opened and 12 stores closed, taking the total network to 929 Liquor sites. Liquor continues to maintain a focus on underperforming stores whilst developing a pipeline for future growth.

Gross margin increased by 23 bps to 21.8% largely due to strategic sourcing benefits from improved relationships with suppliers.

CODB as a percentage of sales improved by 26 bps to 17.1% with strong cost control and volume growth from higher sales fractionalising Liquor's fixed cost base, partially offset by strategic investments in service.

Liquor EBIT increased by 19.6% for the year to \$165 million and EBIT margin increased by 49 bps to 4.7%.

Express

\$ MILLION	FY21	FY20	CHANGE
Convenience (c-store) sales revenue	1,192	1,107	7.7%
EBITDA	207	167	24.0%
EBIT	67	33	103.0%
Gross margin (%)	52.4	53.7	(134)bps
CODB (%)	(46.7)	(50.8)	404bps
EBIT margin (%)	5.7	3.0	270bps

Operating metrics

	FY21	2H21	1H21
Comparable c-store sales growth (%)	6.8	3.6	9.9
2-year comparable sales growth ¹ (%)	11.4	10.0	12.8
Weekly fuel volumes (mL)	57.1	58.9	55.5
Fuel volume growth (%)	(4.0)	8.7	(13.8)
Comparable fuel volume growth (%)	(5.4)	6.8	(14.9)

¹ Comparable 2-year growth is calculated as the aggregate of FY21 and FY20 growth rates.

Key highlights

C-store sales revenue was \$1.2 billion for the year, an increase of 7.7% on the prior corresponding period, with comparable c-store sales growth of 6.8%, and 11.4% on a two-year basis. For the fourth quarter, c-store sales revenue increased by 2.2% and comparable c-store sales growth was 1.2% relative to the prior corresponding period. On a two-year basis, Express headline sales growth increased to 10.8% in the fourth quarter compared to 13.2% achieved in the third quarter, while two-year comparable sales growth in the fourth quarter increased to 9.4% compared to 10.6% achieved in the third quarter.

Sales growth was largely driven by food-to-go (including coffee) and cold drinks, supported by recent investments in new self-serve coffee machines and fast-lane fridges, as well as benefits from the range review implemented in the drinks category in the prior year. Forecourt and tobacco sales also contributed to growth for the year, although exited the year in decline whilst cycling elevated sales associated with COVID-19 as the business benefited from lower CBD footfall and the closure of tobacconists in the prior corresponding period.

Strategic investments were made in the Express network, including renewing over 80 sites together with our Alliance partner. During the year, 13 new sites were opened and nine closed, taking the total Express network to 717 sites.

Fuel volumes declined by 4.0% during the year with comparable fuel volumes declining by 5.4% driven by COVID-19 restrictions impacting traffic flows. Average weekly fuel volumes of 57.1mL per week were recorded during the year. For the fourth quarter, average weekly fuel volumes were 59.0mL per week, broadly flat quarter-on-quarter with volume growth late in the quarter impacted by lockdowns.

Gross margin decreased by 134 bps to 52.4% largely due to declining fuel volumes and lower fuel margin income, partially offset by strategic sourcing benefits. CODB as a percentage of sales improved by 404 bps to 46.7% largely due to strong focus on cost control throughout the year and higher sales fractionalising Express' fixed cost base.

Strong c-store sales and cost control supported an increase in Express EBIT to \$67 million with EBIT margin increasing by 270 bps to 5.7%.

Other

Coles reported net costs of \$61 million for the year. Other includes corporate costs, Coles' 50% share of flybuys' net result, the net gain or loss generated by Coles' property portfolio and self-insurance provisions.

As foreshadowed at FY20 full year results announcement higher corporate costs of \$83 million were incurred for the full year, which were broadly in-line with the run-rate achieved in 1HFY21. The increase compared to the prior year was driven by a market wide increase in insurance costs. Coles' 50% share of flybuys' net result was a \$5 million loss for the year, as investment in team and technology increased, while earnings from property operations were \$27 million for the year.

Balance sheet

\$ MILLION	27 JUN 2021	3 JAN 2021	28 JUN 2020
Inventories	2,107	2,423	2,166
Trade and other receivables	368	415	434
Trade and other payables	(3,660)	(4,173)	(3,737)
Working capital	(1,185)	(1,335)	(1,137)
Property, plant and equipment and equity investments	4,683	4,496	4,344
Right-of-use assets	7,288	7,703	7,660
Intangibles	1,698	1,620	1,597
Provisions	(1,408)	(1,358)	(1,333)
Other assets / (liabilities)	35	(64)	38
Capital employed	11,111	11,062	11,169
Net cash / (debt)	(355)	38	(362)
Lease liabilities	(8,756)	(9,168)	(9,083)
Net tax balances	813	860	891
Total net assets	2,813	2,792	2,615
Inventory days	29	29	29
Trade payable days	(33)	(33)	(33)

Key highlights

Net assets were \$2,813 million, an increase of \$21 million compared to 3 January 2021, and the balance sheet continues to be well placed to support future growth.

Working capital of (\$1,185) million was higher than the half year, reflecting seasonally lower inventory and trade payables with both inventory and payable days stable. Trade and other receivables reduced from 3 January 2021 following the settlement of a one-off property development loan.

Net debt (excluding lease liabilities) increased by \$393 million compared to the half year, driven by a seasonal unwind in net working capital, with net leverage including lease liabilities of 2.8x. In August 2020, Coles issued \$450 million Australian dollar medium term notes comprising \$300 million ten-year fixed rate and \$150 million five-year floating rate notes. The ten-year notes were priced at a coupon of 2.1% and the five-year notes were priced at a margin of 0.97% over three-month BBSW. The proceeds of the notes were used to retire existing bank debt facilities.

Property, plant and equipment and equity investments increased \$187 million compared to the half year as a result of investment in new stores, renewals, and milestone payments for the Supply Chain Modernisation Program and Ocado.

Provisions increased by \$50 million compared to the half year as a result of higher employee entitlements due to fewer team members taking leave due to COVID-19 and an increase in workers compensation claims provision based on claims experience.

Right-of-use assets of \$7,288 million decreased by \$415 million compared to the half year largely driven by depreciation for the period and remeasurements, partly offset by new leases. The remeasurements are also reflected in a reduction in lease liabilities.

Cash flows before financing activities

\$ MILLION	FY21	FY20
EBIT	1,873	1,762
Depreciation and amortisation	1,559	1,495
EBITDA	3,432	3,257
Movement in working capital	48	60
Movement in provisions and other	148	168
Net cash from operating activities – excluding interest and tax	3,628	3,485
Income tax paid	(358)	(504)
Interest component of lease payments	(390)	(399)
Net interest (paid) / received	(43)	(30)
Net cash from operating activities	2,837	2,552
Net capital expenditure	(1,156)	(597)
Other	50	(61)
Net cash from investing activities	(1,106)	(658)
Net cash flow before financing activities	1,731	1,894
Cash realisation ratio	106%	107%

Key highlights

Net cash flow from operating activities excluding interest and tax increased by \$143 million to \$3,628 million compared to the prior period, driven by growth in earnings.

Net cash flow before financing activities decreased by \$163 million to \$1,731 million compared to the prior year largely due to an increase in capital expenditure (refer below), partially offset by a reduction in income tax paid due to a revised PAYG instalment rate reflecting Coles' position as a standalone taxpayer. The cash inflow in Other is largely due to the proceeds from the sale of Returnable Plastic Crates to CHEP in FY21, while the acquisition of Chef Fresh (formerly Jewel Fine Foods) impacted Other in the prior period.

Capital expenditure

Operating capital expenditure on an accrued basis increased by \$278 million to \$1.1 billion in FY21, in-line with guidance.

Within Supermarkets, capital expenditure increased due to investments in the store renewal program, new stores and eCommerce capacity and customer experience. In addition, investments continued in relation to the Supply Chain Modernisation Program. Liquor capital expenditure was focused on new store openings, ongoing First Choice Liquor Market renewals and the commencement of the 'Black & White' Liquorland renewal program. Capital expenditure in Express included investments in the store renewal program but was lower compared to the prior year when the fast-lane-fridges were rolled out across the Express network.

Coles optimised its property portfolio during the year with a focus on further redevelopment activities. Divestment income reduced compared to the prior year resulting in a net property outflow of \$35 million for the year.

Outlook

Conditions in the early part of the first quarter remain volatile as outbreaks of the COVID-19 Delta variant have led to multiple lockdowns across the country. As the number of snap local lockdowns increased, and the New South Wales lockdown was extended, 'local shopping' trends have re-emerged with eCommerce and neighbourhood stores outperforming shopping centre and CBD locations.

During FY22 Coles will be cycling the sales and cost impacts of COVID-19 across all segments, particularly the extended hard lockdown in Victoria during most of H1 FY21. We now expect the roll out of the vaccination program and in turn fewer lockdowns to support normalising consumer behaviours in calendar year 2022.

In Supermarkets, sales growth in the first seven weeks of the first quarter is approximately 1% on a headline basis and 12% on a two-year headline basis as a result of the elevated sales from COVID-19. eCommerce penetration is approximately 8% in the first quarter. In July, Supermarkets incurred around \$15 million of COVID-19 costs.

In Liquor, sales in the first seven weeks of the first quarter have remained strong as lockdowns continue, with headline growth being flat and approximately 19% on a two-year headline basis. Investments in the customer offer and capability as part of Liquor's refreshed strategy will also increase across the year, including the Liquorland renewal and new store program.

In Express, fuel volumes continue to be impacted by lockdowns with average weekly fuel volumes of approximately 49mL in the first seven weeks. In the first quarter, Express will be cycling elevated tobacco sales in the prior corresponding period, and will also be impacted by no increase in the tobacco excise in September 2021.

In Other, FY22 corporate costs are expected to be approximately \$75 million. Property earnings are expected to be slightly below that achieved in FY21.

Smarter Selling benefits are expected to be in excess of \$200 million in FY22. Coles expects to renew approximately 50 stores and to open approximately 20 stores in FY22, subject to COVID-19 conditions.

FY22 will be a significant year in both capital and operating expenditure as a result of Coles' two major commitments announced in FY19 focussed upon delivering world-class technology solutions to improve efficiencies and customer experiences. For the two Witron centres, Coles continues to expect total capital investment of \$950 million, of which approximately \$290 million will be incurred in FY22, along with increased levels of operating costs as Coles prepares for start-up and double-running costs of the Queensland facility in 1HFY23. For the two Ocado CFCs, further project costs will be incurred as Coles prepares to commence operations during FY23 in Melbourne and FY24 in Sydney, subject to COVID-19 restrictions.

Coles expects to incur one-off project operating costs of up to \$75 million in FY22 and \$160 million in FY23, across both programmes, as previously advised. The longer term operational, customer and financial benefits of these new major technology investments will be reflected in the Company's financial performance, commencing in FY24 and beyond.

As outlined at Coles' Investor Strategy Day in June 2021, investment back into the business is increasing to drive growth and efficiency initiatives. Gross operating capital expenditure is expected to be up to \$1.4 billion in FY22 as Coles invests in omnichannel offer expansion for customers, Fresh Produce Easy Ordering, front end transformation, Coles Local and Liquorland renewals, and new space. There is no change to our current guidance of net property capital expenditure of +/- \$100 million.

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Appendix 1 – Number of retail stores

	OPEN AS AT 28 JUN 2020	OPENED	CLOSED	OPEN AS AT 27 JUN 2021
NSW & ACT	255	8	(2)	261
QLD	180	4	(2)	182
VIC & TAS	231	5	(2)	234
SA & NT	62	1	(2)	61
WA	96	2	(2)	96
Supermarkets	824	20	(10)	834
Liquor	910	31	(12)	929
Express	713	13	(9)	717
Group store numbers	2,447	64	(31)	2,480

Appendix 2 – pre-AASB 16 information

\$ MILLION	FY21 REPORTED	AASB 16 ADJUSTMENT	FY21 PRE-AASB 16	FY20 PRE-AASB 16	CHANGE
Supermarkets EBIT	1,702	(304)	1,398	1,310	6.7%
Liquor EBIT	165	(18)	147	120	22.5%
Express EBIT	67	(47)	20	(16)	225.0%
Other EBIT	(61)	-	(61)	(27)	(125.9)%
Group EBIT	1,873	(369)	1,504	1,387	8.4%
Group EBITDA	3,432	(1,272)	2,160	2,021	6.9%
Group NPAT	1,005	15	1,020	951	7.3%

Appendix 3 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information which in the ordinary course, is not subject to audit or review.
- IFRS or Statutory financial information is financial information that is presented in accordance with all relevant accounting standards.
- Any non-IFRS financial information is clearly labelled to differentiate it from the Statutory/IFRS financial information.
- The use of non-IFRS information in the 2021 Full Year Results Release provides readers of these documents with meaningful insights into Coles' financial performance.
- Balance Sheet and Cash Flow information presented in this Results Release is consistent with underlying information disclosed in Appendix 4E Full Year Financial Report

Average basket size – A measure of how much each customer spends on average per transaction

B2C – Business to Consumer. Refers to eCommerce sales between Coles Online and the retail consumer

bps - Basis points. One basis point is equivalent to 0.01%

Capital employed – Total net assets excluding net tax balances, net debt and lease liabilities

Cash realisation – Calculated as operating cash flow excluding interest and tax, divided by EBITDA

CODB – Costs of doing business. These are expenses which relate to the operation of the business below gross profit and above EBIT

Comparable sales – A measure which excludes stores that have been opened or closed in the last 12 months and excludes demonstrable impact on existing stores from store disruption as a result of store refurbishment or new store openings

EBIT – Earnings before interest and tax, calculated in accordance with accounting standards

EBITDA – Earnings before interest, tax, depreciation and amortisation, calculated in accordance with accounting standards

EPS - Earnings per share, calculated in accordance with accounting standards

Exclusive to Coles – refers to the portfolio of product brands that are exclusively available at Coles, and includes Coles Own Brand and Exclusive Proprietary Brand products. Coles Own Brand refers to the portfolio of product brands owned by Coles (e.g. Coles Finest, KOi, Coles Nature's Kitchen). Exclusive Proprietary Brand refers to the portfolio of product brands owned by suppliers but exclusive to Coles (e.g. La Espanola). There has been no change to products included in the financial calculations reported since 1H FY21, including sales and penetration rates

Gross margin – The residual income remaining after deducting cost of goods sold, total loss and logistics from sales, divided by sales revenue

Group sales revenue or Group EBIT – Total sales revenue or EBIT generated by Group for the period

IFRS – International Financial Reporting Standards

Leverage ratio – Calculated as net financial debt, add lease liabilities, divided by EBITDA

MAT – Moving annual total. Sales per square metre is calculated as Sales divided by Net selling area. Both Sales and Net selling area are based on a MAT, calculated on a rolling 52 week basis

Net Promoter Score – metric used to measure customer advocacy, derived from an externally facilitated survey with a nationally representative sample

Perfect Order Rate - the percentage of total Home Delivery orders (excluding Click&Collect) that are fulfilled on time without any missing items or substitutions

pp - Percentage point

Significant items – Large gains, losses, income, expenditure or events that are not in the ordinary course of business. They typically arise from events that are not considered part of the core operations of the business

SKU – Stock Keeping Unit

Tell Coles - A post-shop customer satisfaction survey completed by over two million customers annually, through which Coles monitors customer satisfaction with service, product availability, quality and price

TRIFR - Total Recordable Injury Frequency Rate. The number of lost time injuries, medically treated injuries and restricted duties injuries per million hours worked, calculated on a rolling 12-month basis. TRIFR includes all injury types including musculoskeletal injuries

Two-year growth - Headline 2-year growth is calculated as growth between FY21 and FY19 (retail calendar basis). Comparable 2-year growth is calculated as the aggregate of FY21 and FY20 growth rates

Women in leadership – comprises team members pay grade eight (being middle managers and specialist roles) and above, and Supermarket store managers

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (inventories, receivables and payables)